

**AN EXAMINATION OF  
THE IOWA MEDICAL ASSISTANCE DISPROPORTIONATE  
SHARE HOSPITAL PAYMENTS PROGRAM  
ADMINISTERED BY THE IOWA  
DEPARTMENT OF HUMAN SERVICES  
FOR THE YEAR ENDED JUNE 30, 2010**

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Independent Accountant's Report

To Charles M. Palmer, Director  
of the Iowa Department of Human Services:

We have examined the Iowa Medical Assistance Disproportionate Share Hospital Payments Program (the Program) and the accompanying schedule identified as Schedule 1 for the Iowa Department of Human Services (Department) for the year ended June 30, 2010. The Iowa Department of Human Services' management is responsible for complying with the six verifications required by the Code of Federal Regulations – 42 CFR, Parts 447 and 455. Our responsibility is to express an opinion on the Program's six verifications based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the Program and other required information and performing such other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion.

Our examination disclosed four findings which are identified following the listing of required verifications.

In our opinion, except for the findings noted in the preceding paragraph, the Iowa Medical Assistance Disproportionate Share Hospital Payments Program and the accompanying schedule referred to above are in compliance with the six verifications as required by the Code of Federal Regulations – 42 CFR, Parts 447 and 455, in all material respects, for the year ended June 30, 2010.

This report, a public record by law, is intended solely for the information and use of the Iowa Department of Human Services and other parties to whom the Iowa Department of Human Services may report. This report is not intended to be and should not be used by anyone other than these specified parties.

  
MARY MOSIMAN, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 12, 2013

**Iowa Medical Assistance Disproportionate  
Share Hospital Payments Program**

### **Required Verifications**

We evaluated the Iowa Medical Assistance Disproportionate Share Hospital (DSH) Payments Program to determine compliance with each of the following verifications:

- (1) Each hospital qualifying for a DSH payment in the State is allowed to retain the payment so it is available to offset the hospital's uncompensated care costs for furnishing inpatient hospital and outpatient hospital services during the Medicaid State plan rate year to Medicaid eligible individuals and individuals with no source of third party coverage for the services in order to reflect the total amount of claimed DSH expenditures.
- (2) DSH payments made to each qualifying hospital comply with the hospital-specific DSH payment limit and are measured against actual uncompensated care cost in the same audited Medicaid State plan rate year.
- (3) Only uncompensated care costs of furnishing inpatient and outpatient hospital services to Medicaid eligible individuals and individuals with no third party coverage for the inpatient hospital and outpatient hospital services they received are eligible for inclusion in the calculation of the hospital-specific DSH payment limit.
- (4) For purposes of the hospital-specific DSH payment limit calculation, any Medicaid payments made to a disproportionate share hospital which are in excess of the Medicaid incurred costs of such services are applied against the uncompensated care costs of furnishing inpatient hospital and outpatient hospital services to individuals with no source of third party coverage for such services.
- (5) Information and records of all of its inpatient hospital and outpatient hospital service costs under the Medicaid program, claimed expenditures under the Medicaid program, uninsured inpatient hospital and outpatient hospital service costs in determining payment adjustments and any payments made on behalf of the uninsured from payment adjustments have been separately documented and retained by the State.
- (6) The information in (5) above includes a description of the methodology for calculating each hospital's DSH payment limit. The disproportionate share data shown in the accompanying schedule describes how the Iowa Department of Human Services defines incurred inpatient hospital and outpatient hospital costs for furnishing inpatient hospital and outpatient hospital services to Medicaid eligible individuals and individuals with no source of third party coverage for the inpatient hospital and outpatient hospital services they received.

### **Findings and Recommendations**

- (1) Dual Eligibility – Section 1923(g) of the Social Security Act defines hospital-specific limits on Federal financial participation (FFP) for Medicaid DSH payments. Under the hospital-specific limits, a hospital's DSH payment must not exceed the costs incurred by the hospital in furnishing services during the year to Medicaid and uninsured patients, less payments received for those patients. There is no exclusion in section 1923(g)(1) for costs for, and payments made on behalf of, individuals dually eligible for Medicare and Medicaid. Hospitals which include dually-eligible days to determine DSH qualification must also include the costs attributable to dual eligibles when calculating the uncompensated costs of serving Medicaid eligible individuals. Hospitals must also take into account payments made on behalf of the individuals, including all Medicare and Medicaid payments made on behalf of dual eligibles. In calculating the Medicare payment for service, the hospital is to include the Medicare DSH adjustment and any other Medicare payments (including, but not limited to Medicare Indirect Medical Education (IME) and Graduate Medical Education (GME)) with respect to that service.

Based on our review of Iowa DSH hospitals, payments for services for individuals dually eligible for Medicaid and Medicare were not separately identified for six of eight hospitals. In addition, of the two hospitals which identified payments and costs for individuals dually eligible, certain payment data was not provided. Accordingly, these costs and payments are not included in Schedule 1 when calculating the hospital specific limit. In addition, according to cost report data, dual eligibles were not included in the DSH hospital's Medicaid cost population. These uncompensated care costs were also not included in determining DSH qualification. The effect, if any, of including the uncompensated care costs for the dually eligible population in the calculation of eligible uncompensated care costs could not be determined.

Recommendation - The Department should not exclude costs for, and payments made on behalf of, individuals dually eligible for Medicare and Medicaid in calculating hospital-specific limits for Medicaid DSH payments. In addition, the Department should ensure inpatient days for patients dually eligible for Medicare and Medicaid are included when calculating the Medicaid Inpatient Utilization Rate (MIUR) percentage in determining DSH qualification.

Response - The Department's procedures were changed to add the dual eligible costs into the hospital-specific limits for DSH calculations during 2011. The reporting and collection of this information is required. Additionally, Iowa Medicaid has begun a new project, which will result in obtaining Medicare paid claims data for dual eligible individuals beginning in calendar year 2012 for up to five years' historical claims. This Medicare payment information will be incorporated into the calculations for the hospital-specific limits.

Conclusion - Response accepted.

- (2) Computer Match - Uninsured Costs - A computer match of claim data was performed for recipients of medical care classified as both Medicaid eligible and uninsured. For fiscal year 2010, we reviewed 25 recipients of medical care from Broadlawns Medical Center, 25 recipients of medical care from University of Iowa Hospitals and Clinics and 3 recipients of medical care from Iowa Methodist Medical Center who were included in both the Medicaid population and the uninsured population. The following were noted:
- a) Of the 25 recipients tested at Broadlawns Medical Center, 3 recipients were classified as both Medicaid eligible and uninsured for the same month of service.
  - b) Of the 25 recipients tested at University of Iowa Hospitals and Clinics, 4 recipients were classified as both Medicaid eligible and uninsured for the same month of service.
  - c) Of the 3 recipients tested at Iowa Methodist Medical Center Blank Children's Hospital, one recipient was classified as both Medicaid eligible and uninsured for the same month of service.

Per hospital officials, this was primarily due to individuals becoming eligible for Medicaid after initially being classified as uninsured. As a result, total eligible uncompensated care costs could not be verified for these hospitals.

Recommendation - The Department should implement procedures to ensure uninsured, uncompensated care costs used for the hospital-specific DSH payment limit do not contain costs for Medicaid eligible recipients.

Response – The Department’s Medicaid Provider Cost Audit and Rate Setting (PCA) contractor conducts a DSH survey during the rebase period to determine which hospitals qualify for DSH payments from Iowa Medicaid, except for the University of Iowa and Broadlawns Medical Center which submit the DSH survey on an annual basis. Beginning with the State Fiscal Year 2012 survey, detailed information will be gathered regarding uncompensated care costs. Hospitals will be required to provide specific patient information, including patient identifier, dates of service, charges, number of days of care and payments. Staff of the PCA unit will make a determination whether uncompensated care is being correctly reported. Regarding Broadlawns Medical Center (BMC) specifically, a letter was sent to them by the Iowa Medicaid Director, Jennifer Vermeer, after the State Fiscal Year 2008 DSH audit alerting BMC to the issues found regarding uncompensated care.

Conclusion – Response accepted.

- (3) Supporting Documentation - The Low Income Utilization Rate (LIUR) percentage and the Medicaid Inpatient Utilization Rate (MIUR) percentage are required reporting elements which are used by the Department in determining DSH qualification. These percentages are calculated using required data elements. For the year ended June 30, 2010, Unity HealthCare did not provide support for Iowa Care Days, Charity Care Charges and Total Bad Debt. As a result, the MIUR and LIUR calculations used to calculate DSH eligibility for Unity HealthCare could not be verified.

Recommendation - The Department should implement procedures to ensure all data elements utilized in the MIUR and LIUR calculations are properly supported.

Response – The Department’s Medicaid Provider Cost Audit and Rate Setting (PCA) contractor conducts a DSH survey during the rebase period to determine which hospitals qualify for DSH payments from Iowa Medicaid, except for the University of Iowa and Broadlawns Medical Center which submit the DSH survey on an annual basis. Beginning with the State Fiscal Year 2012 rebase, detailed information was required to be submitted for the DSH survey used to calculate the Low Income Utilization Rate (LIUR) and Medicaid Inpatient Utilization Rate percentages.

Conclusion – Response accepted.

- (4) Uninsured Pharmacy Service Costs - When calculating the total uninsured uncompensated care costs for Broadlawns Medical Center for fiscal year 2010, a component of these costs included approximately \$4.4 million classified as outpatient pharmacy claims. Per hospital officials, these costs represent the Center’s pharmacy free care.

In accordance with the Federal Register/Vol. 73, No. 245, page 77915, “Pharmacy service costs are separately identified on the Medicare 2552-96 cost report and are not recognized as an inpatient or outpatient hospital service. Pharmacy service costs that are not part of an inpatient or outpatient rate and are billed as pharmacy service and reimbursed as such are not considered eligible for inclusion in the hospital specific uncompensated cost limit.” Based on audit inquiry of hospital officials, Broadlawns Medical Center’s “retail” pharmacy claims are included in the uninsured file as outpatient pharmacy claims and reported in the pharmacy line of their Medicare cost report, line 56. As a result, retail pharmacy costs were included in the original State Estimated Hospital-Specific DSH limit calculation. These costs were excluded from total eligible uncompensated care costs in Schedule 1.

Recommendation - The Department should implement procedures to ensure uninsured, uncompensated care costs used for the hospital-specific DSH payment limit do not contain retail pharmacy service costs and only include costs associated with outpatient hospital care.

Response - The Department's Medicaid Provider Cost Audit and Rate Setting (PCA) contractor has discussed this issue with Broadlawns Medical Center (BMC) regarding the reporting of retail pharmacy cost on the Medicare Cost Report. Particularly, that retail pharmacy cost must be broken out separately from hospital pharmacy cost on the Medicare cost report. Also, the reporting of uncompensated care data on the DSH survey cannot include information pertaining to retail pharmacy cost for purposes of calculating the hospital-specific limit. BMC applied these changes to their 2012 Medicare cost report but still needs to amend their Fiscal Year 2011 Medicare cost report.

Conclusion - Response accepted.

**Iowa Medical Assistance Disproportionate  
Share Hospital Payments Program**

**Iowa Medical Assistance Disproportionate  
Share Hospital Payments Program**

**Medicaid State Plan Rate Year Ended June 30, 2010**

Definition of Uncompensated Care: The Iowa Department of Human Services, for the purpose of the Medical Assistance Disproportionate Share Hospital Payments Program, defines Medicaid uncompensated care as the cost of services to Medicaid patients, less the amount paid by the State under the non-disproportionate share hospital payment provisions of the State Plan. Uninsured uncompensated care is defined as the cost of services to uninsured patients (those who have no health insurance or source of third party payments) less the amount of payments made by these patients.

| A   | B   | C                            | D                           | E                                       | F  | G                           | H  |
|---|---|------------------------------|-----------------------------|---|--|-----------------------------|--|
| Hospital Name   | State Estimated Hospital-Specific DSH Limit | Medicaid IP Utilization Rate | Low-Income Utilization Rate | State-Defined DSH Eligibility Statistic | Regular IP/OP Medicaid FFS Rate Payments | IP/OP Medicaid MCO Payments | Supplemental /Enhanced IP/OP Medicaid Payments |
| Keokuk Area Hospital (0600080)                                      | \$ 3,306,843                                | 29.54%                       | 16.01%                      | N/A                                     | \$ 2,537,205                             | 307,209                     | -  |
| St. Luke's Regional Medical Center (0600114)                        | 4,178,025                                   | 36.09%                       | 19.22%                      | N/A                                     | 13,546,355                               | 321,235                     | 521,456  |
| Unity HealthCare (0600155)  | 2,428,732                                   | 34.86%                       | 26.02%                      | N/A                                     | 3,452,046                                | 4,276,955                   | -  |
| Alegent Health - Mercy Hospital (0600288)                           | 7,228,490                                   | 32.62%                       | 19.19%                      | N/A                                     | 10,088,933                               | 1,969,065                   | 4,957  |
| Jennie Edmundson Memorial (0600478)                                 | 2,319,295                                   | 32.65%                       | 13.72%                      | N/A                                     | 8,323,967                                | 748,503                     | 23,263   |
| University of Iowa Hospitals and Clinics (0600585)                  | 29,806,638                                  | 36.82%                       | 24.13%                      | EDSH                                    | 194,463,499                              | 3,542,643                   | 17,836,648                                     |
| Iowa Methodist Medical Center - Blank Children's Hospital (0600825) | 7,300,642                                   | 10.45%                       | 6.95%                       | Children's Hospital                     | 29,099,938                               | 1,817                       | -  |
| Broadlawn Medical Center (0601013)                                  | 20,425,220                                  | 82.10%                       | 110.76%                     | EDSH                                    | 31,887,529                               | 1,387,292                   | 1,242,468                                      |

**Out-of-State DSH Hospitals (amounts represent Iowa and Nebraska)**

|   |   |            |        |        |     |            |            |           |
|---|---|------------|--------|--------|-----|------------|------------|-----------|
| Children's Memorial Hospital, Omaha, NE (0902148) | ^ | 3,699,300  | 47.47% | 26.92% | N/A | 36,026,001 | 10,323,268 | -         |
| St. Joseph Hospital, Omaha, NE (0992917)          | ^ | 1,509,583  | 36.27% | 23.08% | N/A | 30,997,211 | 6,657,074  | 1,560,887 |
| Immanuel Medical Center, Omaha, NE (900837)       | ^ | 1,689,816  | 35.99% | 12.87% | N/A | 24,982,297 | 6,596,931  | -         |
| Nebraska Medical Center, Omaha, NE (507459)       | ^ | 15,930,521 | 31.08% | 11.68% | N/A | 96,492,028 | 12,983,032 | 1,351,509 |

N/A - not applicable

EDSH - Hospital qualifies for Enhanced Disproportionate Share payments. To qualify, a hospital must meet one of the following:

- an Iowa state-owned hospital with more than 500 beds, having 8 or more separate and distinct residency specialty or subspecialty programs recognized by the American College of Graduate Medical Education.
- a non-state government-owned acute care teaching hospital located in a county with a population over 350,000.
- an Iowa state-owned hospital for persons with mental illness.

% - As explained in Finding (2), certain uninsured, uncompensated care costs are also included in Medicaid uncompensated care costs. The effect on the calculation of eligible uncompensated care costs could not be determined.

# - As explained in Finding (3), supporting data was not provided for certain required data elements. The unsupported data elements reported were used in the above calculations. The effect, if any, on eligibility or the calculation of eligible uncompensated care costs could not be determined.

& - As explained in Finding (4), uncompensated care costs included retail pharmacy service costs in the original State Estimated Hospital - Specific DSH limit calculation. These costs were excluded from total eligible costs in column P.

^ - Information reported in columns B - I and column Q was provided by Nebraska DSH audit staff.

\* - Per Federal Register 42 CFR, Part 447.299(18), reporting this information is not required for out-of-state hospitals.

|  |
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|  |
|--|

| I                             | J  | K                                      | L   | M                                      | N                                  | O                                       | P                                       | Q                           |
|-------------------------------|--|--|---|--|------------------------------------|---|---|-----------------------------|
| Total Medicaid IP/OP Payments | Total Cost of Care-Medicaid IP/OP Services | Total Medicaid Uncompensated Care Cost | Total IP/OP Indigent Care/Self-Pay Revenues | Total Applicable Section 1011 Payments | Total IP/OP Uninsured Cost of Care | Total Uninsured Uncompensated Care Cost | Total Eligible Uncompensated Care Costs | Total DSH Payments Received |
| 2,844,414                     | 4,371,302                                  | 1,526,888                              | 254,722                                     | -                                      | 2,034,677                          | 1,779,955                               | 3,306,843                               | 61,888                      |
| 14,389,046                    | 15,663,190                                 | 1,274,144                              | 439,781                                     | -                                      | 3,343,662                          | 2,903,881                               | 4,178,025                               | 333,259                     |
| 7,729,001                     | 8,641,872                                  | 912,871                                | 125,056                                     | -                                      | 1,640,917                          | 1,515,861                               | 2,428,732                               | 64,379 #                    |
| 12,062,955                    | 13,625,354                                 | 1,562,399                              | 381,395                                     | -                                      | 6,047,486                          | 5,666,091                               | 7,228,490                               | 213,483                     |
| 9,095,733                     | 8,905,753                                  | (189,980)                              | 509,484                                     |  | 3,018,759                          | 2,509,275                               | 2,319,295                               | 142,336                     |
| 215,842,790                   | 244,970,906                                | 29,128,116                             | 1,341,223                                   | -                                      | 10,544,064                         | 9,202,841                               | 38,330,957                              | 22,210,898 %                |
| 29,101,755                    | 36,201,507                                 | 7,099,752                              | 194,893                                     | -                                      | 395,783                            | 200,890                                 | 7,300,642                               | 1,989,831 %                 |
| 34,517,289                    | 44,037,328                                 | 9,520,039                              | 786,455                                     | -                                      | 8,983,683                          | 8,197,228                               | 17,717,267                              | 20,425,220 % &              |

|             |   |   |   |   |   |   |   |            |
|-------------|---|---|---|---|---|---|---|------------|
| 46,349,269  | * | * | * | * | * | * | * | 3,859,438  |
| 39,215,172  | * | * | * | * | * | * | * | 1,600,418  |
| 31,579,228  | * | * | * | * | * | * | * | 1,708,054  |
| 110,826,569 | * | * | * | * | * | * | * | 17,229,004 |